# Progressive Risk Reduction

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- The trades you take must have predetermined risk defined. Ideally never more than 2% of equity per trade. If you are new, one might consider 1% risk per trade as a maximum exposure.
- The purpose of protective stops is to control risk.
- After the trade has been executed and the position sees profits.. the stop should be managed in such a way as to reduce the risk as the position moves into profitability.
- PSLO stands for protective stop loss order, all trades must utilize it. It is the only means of defense in adverse market conditions. The initial PSLO must never be widened. If the trade stops out, the trade was unprofitable, that's it.. period.
- When your trades stop out, it is a wonderful opportunity to grow in your understanding as a developing trader. Not all of the best lessons are learned from winning trades. You develop less fear from taking losses and you quickly overcome both fear & greed by routinely taking controlled losses and trading out of their drawdown.
- You are never permitted to widen your initial protective stop loss order.
- Without proper utilization of a stop loss, you are in this for the short term and will eventually be taken out of the game.
- When utilizing stop loss management, you will be working within the middle and/or smallest time frame of the 3 time frames that you framed your trade around. Ideally within the middle time frame. For example, on swing trades you would be working within the 4 hour time frame.
- There is nothing wrong with a 63 pip stop on a higher time frame trade/swing trade. That is also how someone with a day job can take a significant amount of pips out of the market.
- For swing trades, your first profit objective is the low that you drew the Fibonacci on (going short).
- There is also nothing wrong with taking some profits at predetermined support levels that price may bounce at before it gets to the swing low you drew the Fib on.
- As the trade starts to move into profit, we can start moving our stop loss closer to our entry point.



- As the trade moves in your favor on the short trade above, you are looking for previous swing lows to be broken. When you see those lows being broken, you will start narrowing your stop loss range trying to get to a break even status. You are not rushing to get to break even because you don't want to get stopped out prematurely and then see the trade eventually go in your favor.
- Keep your stop loss 10 pips above the previous 2 swing highs in the example above.
- For a position/swing trade, you would be using the intermediate term highs for stop loss placement and not just the short term highs.
- You are not going to be growing very much as a trader by being a small trader and putting small risk on and only taking little small pieces out of the market.
- You want to be assuming risk, but still protecting yourself at the same time.
- With higher time frame level trades you can take smaller portions of profit to allow you to participate and longer term swings.
- You can use lower time frames to find a more precise entry with a smaller stop, but we can use a larger stop because our profit objectives are so much larger.
- Once the profit objective is met on your original OTE, that is when you start trailing the stop based on the past 2 swing points.
- In the image below we have very nice market structure for going long because of all the higher lows surrounding the low inside the OTE.



- Don't abandon the concept of taking partial profits.
- This stop loss management concept works with every asset class.